City of Westminster

Audit and Performance Committee

Decision Maker:	**Audit and Performance Committee**
Date:	**23 February 2023**
Classification:	**General Release**
Title:	**2022/23 Quarter 3 Financial Monitor**
Wards Affected:	**ALL**
Key Decision:	**No**
Financial Summary:	**The report summarises the Council's 2022/23 Quarter 3 financial position**
Report of:	**Gerald Almeroth, Executive Director – Finance and Resources**

1. Executive Summary

1.1 This monitoring report presents the Council's summarised 2022/23 Q3 financial position as at 31 December 2022 together with the forecast for the remainder of the year. The forecast has been based on activity trends and analysis to date.

Revenue Summary

1.2 The forecast revenue outturn at the end of Q3 is a projected overspend of £3.043m (1.7% of net budget) compared to the reported projected overspend of £5.762m at Q2. This is a favourable movement of £2.719m.

1.3 The summary of the key movements since Q2 are shown in the Table 1:

Table 1. Quarterly movement – Financial Year 2022/23

Heading	Financial Movement £m	Narrative
Interest Earnings	(5.500)	In December 2022 the base rate increased from 3% to 3.5% so average investment performance improved from Q2 to Q3. As inflation remains high, the Bank of England is expected to increase the rate further by the end of the financial year.
Commercial Waste Income	(0.500)	Commercial waste income has seen a favourable movement of £0.5m from Q2 and is forecast to receive £3m over budget. Year to date income is £2.400m (24%) over budget, and 36% higher than 2021/22. This is due to increased footfall following the end of Covid restrictions and an improvement beyond that originally expected.
Parking Income	(0.282)	Net improvement in income of £0.525m offset additional enforcement costs of £0.243m
Inflation	1.000	Further inflationary pressures above the original budget set when inflation was lower. An £827k variance arises from the agreement of the national pay award agreed recently. The remaining £200k arises from contract inflation
Planning Income	0.550	Major applications are down by nearly 50% on pre-pandemic levels, with total applications 60% below pre-pandemic levels.
Temporary Accommodation	1.000	Rising rents mainly caused by a significant contraction of supply and increases in rental rate due to increased reliance on corporate hotels.
Small Cell Contract Income	0.412	Although factored in as a risk in Q2, the pressure has now been incorporated within the projections. The realised figure was higher than the identified risk in Q2.
Other	0.601	Other movements within services
Total Forecast	**(2.719)**	

Capital Summary

1.4 The Q3 Capital Programme forecast position is £35.591m gross expenditure underspend and £18.281m net variance. It should be noted that budgets were reprofiled at Q2 and have been approved by Cabinet. Further details are included in section 14 of this report.

Inflation

1.5 Inflation in December 2022 rose to 10.5% which was an increase on the reported September 2022 inflation rate of 10.1%. At Q2 pay and contract inflation pressures were reported at £9.820m, this has increased to £10.862m in Q3. This increase is predominately due to additional contract inflation requests from suppliers and finalisation of the pay award. Details on inflation is explored further at Section 4.

Savings

1.6 Savings achieved year to date are now reported as £5.387m which is an increase of £1.046m from Q2; with 79% of savings either on target to be achieved in year or achieved.

2. Recommendations to Audit and Performance Committee

2.1 That Audit and Performance Committee notes the current monitoring and forecast position at Q3 for 2022/23.

3. Revenue Budget Overview

3.1 In March 2022 Full Council approved the 2022/23 budget which included £16.671m of savings and £5.789m of investment and pressures. As at Q3 of the 2022/23 financial year the General Fund revenue position is reporting a forecast overspend of £3.043m against a budget of £184.862m.

3.2 Table 2 summarises the Q3 General Fund position.

Table 2 - Revenue Finance Position and Forecast – Q3 Financial Year 2022/23 (£m)

Executive Directorate	2022/23 Budget £m	2022/23 Forecast £m	2022/23 Variance £m	Risks Identified £m	Opportunities Identified (£m)	Projected Variance inc Opps and Risks (£m)
Adults Social Care	50.570	50.470	(0.100)	-	-	(0.100)
Public Health	(1.141)	(1.141)	-	-	-	-
Growth, Planning and Housing	19.614	29.790	10.176	0.100	(0.450)	9.826
Finance and Resources	29.028	9.274	(19.754)	0.070	(0.400)	(20.084)
Environment and City Management	(3.827)	(3.612)	0.215	0.300	(0.600)	(0.085)
Children's Services	38.261	40.219	1.959	0.462	-	2.420
Innovation and Change	17.355	17.081	(0.274)	0.302	-	0.028
Other Corporate Directorates	4.032	3.992	(0.040)	-	-	(0.040)
Corporate Items (including inflation)	30.971	41.833	10.862	-	-	10.862
NET CONTROLLABLE BUDGET	**184.863**	**187.906**	**3.043**	**1.234**	**(1.450)**	**2.827**

3.2 The table below summarises the movement by Executive Directorate from Q2 on the General Fund position.

Table 3 – General Fund Revenue Movement by Executive Directorate – Q2 to Q3 Financial Year 2022/23 (£m)

Executive Directorate	Q2 2022/23 Variance £m	Q3 2022/23 Variance £m	Movement £m
Adult Social Care	(0.100)	(0.100)	-
Public Health	-	-	-
Growth, Planning & Housing	9.116	10.176	1.060
Finance and Resources	(15.365)	(19.754)	(4.389)
Environment and City Management	0.797	0.215	(0.582)
Children's Services	1.809	1.959	0.150
Innovation and Change	(0.315)	(0.274)	0.041
Other Corporate Directorates	-	(0.040)	(0.040)
Corporate Items (including inflation)	9.820	10.862	1.042
NET CONTROLLABLE BUDGET	**5.762**	**3.043**	**2.719**

4. Inflation

4.1 Inflation continues to remain a significant economic challenge in 2022/23, with the CPI rate reported at 10.5% in December 2022. CPI inflation at Q2 is now nearly double the 5.4% level at the point of setting the budget. The sharp rise in inflation presents the biggest financial risk to the Council's budget.

4.2 The budget approved at the beginning of the year to cover pay and contract inflation was £9.307m when inflation was 5.4%. Since then, the actual cost to the General Fund has been £20.169m. This has led to an overspend of £10.862m. These costs are reported in Corporate Items in Table 2 of this report.

- **Pay:** The Council budgeted for 2% for 2022/23. The 22/23 pay award has now been approved and staff will receive a flat rate pay increase of £2,355 which represents average pay increase of 5%. The pay increase ranges from an average 9% increase for those in Bands 1 and 2 to 1.5% for those in Bands 6 and 7. This award will add a further £4m pressure onto salary budgets. (£0.827m more than estimated at Q2).

- **Non-pay:** While some contracts inflationary increases have been negotiated down, there are still pressures across all services that need to be reflected across all service budgets.

4.3 Set out in the table below are the forecast impacts of inflation by directorate against the budget set aside, as at the end of Q3 a £10.862m overspend is forecast against the corporate budget that will need to be met within directorate budgets.

Table 4 - Impact of Inflation Increases in 2022/23 on Executive Directorates (£'m)

Directorate	Forecast Impact of Pay Award Inflation £'m	Forecast Impact of Contract Inflation £'m	Total Inflation Pressure £'m
Adults Social Care	0.818	2.666	3.484
Children's Services	1.571	0.638	2.209
Environment and City Management	1.193	5.370	6.563
Finance and Resources	2.503	2.319	4.822
Growth, Planning and Housing	0.953	1.701	2.654
Innovation and Change	0.241	0.000	0.254
Other Corporate Directorates	0.183	0.000	0.183
Total Forecast	**7.464**	**12.706**	**20.169**
Forecast at Q2	**6.627**	**12.500**	**19.127**
Change since Q2	**0.837**	**0.206**	**1.043**

5. Medium Term Financial Plan Monitoring – Savings

5.1 In March 2022 Full Council approved the 2022/23 budget which included £16.671m of savings.

5.2 Details of progress against approved savings are outlined in the commentary for each directorate in the table below. Where savings are not on track, the directorates continue to consider mitigations to bring the budget back on target for this year.

5.3 Of the total savings targets Innovation and change have reported a slight over achievement against their targets. Of the savings 79% are either achieved or on target.

Table 5 - Approved Savings Progress (£m)

Executive Directorate	Saving Achieved £m	Part Achieved/ On Track £m	Part or Completely Reprofiled £m	Part or Completely Unachievable £m	Total £m
Adult Social Care	0.210	2.400	-	-	2.610
Children's Services	-	1.133	-	0.800	1.933
Environment and City Management	2.950	1.740	0.158	1.000	5.848
Finance and Resources	0.575	1.100	0.400	-	2.075
Growth, Planning and Housing	1.040	1.370	-	1.100	3.510
Innovation and Change	0.612	-	-	-	0.612
Total	**5.387**	**7.743**	**0.558**	**2.900**	**16.588**

Revenue Summary

6. Adult Social Care (ASC) — Underspend £0.100m

6.1 ASC is continuing to forecast an underspend of £0.1m at Q3. Despite the challenging environment the directorate continues to work continues to maintain a stable budget outturn. Against the net budget of £50.5m the underspend reported equates to 0.2%. The forecast previously reported a financial risk of £2.0m, however, for this year, this has been mitigated by additional funding from the Department of Health, and Social Care (DHSC).

6.2 ASC is expected to receive £3.0m in one-off funding for this financial year, however, all of this will offset previously projected discharge cost pressures, £2.0m, and the remaining £1.0m will allow further spending to support the hospital discharge process and alleviate pressures being experienced in acute settings over the winter period.

6.3 National ASC reforms have now been postponed from October 2023 until October 2025. Government guidelines on how the reforms will develop remain unknown at this stage. The directorate is awaiting guidance as currently the only reporting due in February to be submitted to DHSC is on Fair Cost of Care (FCoC).

Public Health — £nil variance forecast

6.4 Public Health is forecasting a break-even position. The department has made a commitment to invest in cross-council initiatives and public health interventions which address health inequalities in the local population. This programme will target key vulnerable groups to offer increased resilience and support with mental health and wellbeing.

6.5 The expenditure commitments are captured within the forecast outturn position. Of the commitments projected, £1.682m is linked to cross-council initiatives that were agreed last year to address the impact of Covid-19 on residents and will demonstrate alignment with Fairer Westminster. In addition, several community-based projects are committed £1.386m and further projects are being scoped linked to other priorities such as protect from harm, good mental health, best start for children and promoting physical health.

7. Growth, Planning & Housing (GPH) — Overspend £10.176m

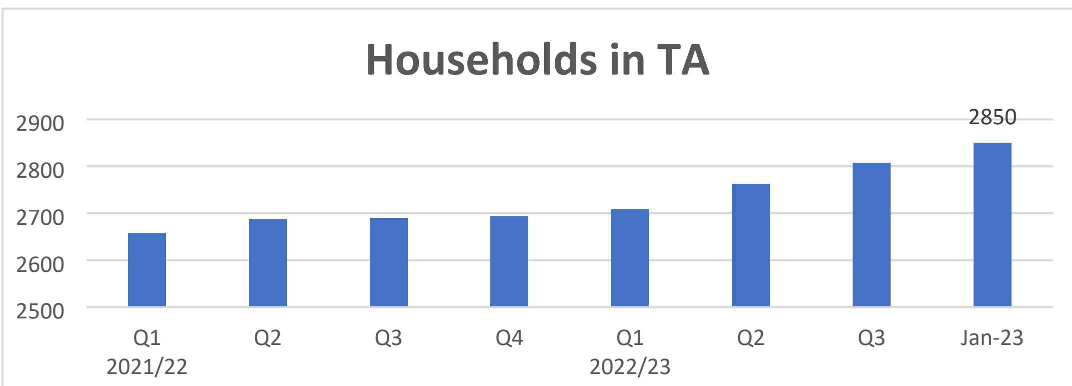
7.1 An overspend of £10.176m is forecast at Q3 against a budget of £19.614m. The overspend is a result of the on-going pressures on Temporary Accommodation (TA), combined with a projected shortfall on budgeted Planning Income of £3.850m.

Temporary Accommodation (TA)

7.2 The position for GF Housing highlights the cost pressures faced by the Council in retaining its supply of TA. The £6.816m overspend includes an assumption that £4.880m of Homeless Prevention Grant can be used to offset expenditure (as was the case in 2021/22). The Council continues to see an increase in the demand pressures placed on the service with household numbers increasing in 2022/23. Cost pressures are also impacting Private Rented Sector (PRS) provision, where lease renewals have resulted in an increase in the costs paid to landlords. Furthermore, a trend of PRS units being withdrawn by landlords is resulting in a greater reliance on commercial hotels than has historically been the case.

Demand

7.3 Demand pressures on TA have been managed at a broadly consistent level over the last couple of financial years, with households in TA tending to fluctuate between 2,650 and 2,750. However, this year there has been a significant increase in that demand. The following chart shows how the number of households in TA has risen quarter on quarter during this financial year and are now at their highest level of almost 2,850. This increased demand pressure is reflected in the increased cost projections this quarter:



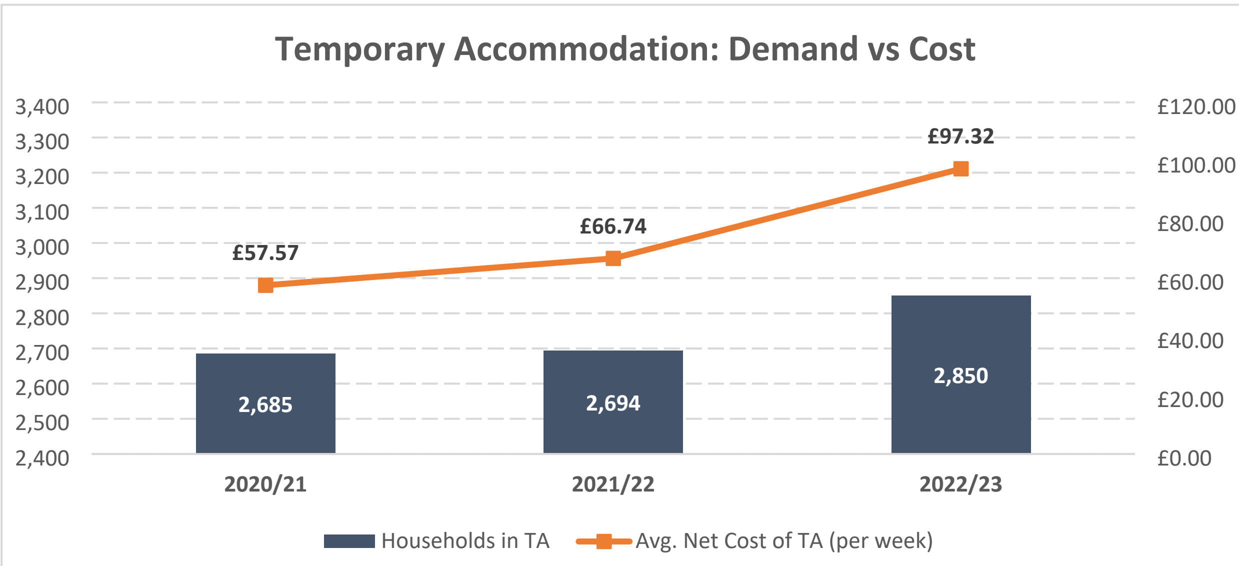
Cost

7.4 Compounding the demand pressures, are significant increase in costs of Private Rented Sector (PRS) units. This is due to the renegotiation of leases on a large number (over 1,000) of our units. The cost pressure linked to this is approximately £1.8m in the current financial year, although the full year impact, which will be felt in 2023/24, is £2.6m. These renewals will, however, secure prices for the next three years.

High-cost provision

7.5 A further issue faced by the Council, is a significant increase in the number of PRS landlords withdrawing their property from the market. In November and December 2022 there was a total of 84 properties returned to landlords compared to a total of 60 in the same period in 2021. This trend is increasing the reliance on far more expensive hotel accommodation. This is by far the most expensive method of accommodation provision. It is only used as a last resort, but with reducing alternative supply, the Council is increasingly reliant on this route. Overall cost projections for nightly paid accommodation, including corporate hotels, has increased by more than £2.6m since 2021/22.

7.6 The net cost of TA has been steadily rising over the last 2-3 financial years. However, the Council has largely been able to mitigate these cost increases using residual grant (particularly during the pandemic). However, the balance of surplus grant from prior years is heavily depleted and projected to be fully exhausted at the end of 2022/23. This means that the pressure on TA spend will need to be carefully considered as part of the 2023/24 budget setting process given that the increases in the cost of supply are unlikely to ease.



7.7 One method of mitigating some of the pressures facing the Council on TA is to acquire units of its own for use as TA. This year's capital strategy budget proposals include an enhanced allocation of funding to deliver an increased number of units of TA. This programme would potentially deliver a further 270 units of TA. Council-owned units help to mitigate against some of the pressures currently faced both in terms of diminishing supply and increasing lease costs. However, it should be noted that even with this enhanced programme, the Council remains heavily reliant on PRS in meeting its obligations to house homeless households.

Planning

7.8 Planning income remains significantly lower than budget (forecasting a £3.850m adverse variance at Q3), which has remained the case since Covid. The position is primarily driven by a continued reduction in the number of "major applications" which carry significant fees. Major applications activity to Q2 is 59% lower than the same period in 2019/20 (pre-pandemic year).

7.9 The table below shows a comparison of activity levels for planning and pre-planning applications:

Table 6 - Activity Levels for Planning and Pre-planning Applications

	2019/20	2021/22	Change	2019/20 Q3	2022/23 Q3	Change
Major	67	37	-45%	58	24	-59%
Minor	2,735	3,082	13%	2,121	2,256	6%
Other	7,067	4,916	-30%	5,466	3,647	-33%
Pre Apps	1,272	843	-34%	971	637	-34%

8. **Finance and Resources** **Underspend £19.754m**

8.1 At Q3, Finance and Resources is reporting a favourable variance of £19.754m against the budget of £29.028m.

Treasury and Pensions

8.2 Treasury and Pensions is showing an overall favourable position of £22.327m, with the majority of that coming from additional treasury investment income earnings of £20.461m.

8.3 Cash levels grew to an average of £1,200m in Q3 compared with Q2's average balance of £900m. The Bank of England base rate has risen on two occasions since Q2, from 2.25% to 3% in November and then again to 3.50% in December. Given that many of the Council's Treasury deals are current at these higher rates, most of the forecast investment return is now known. However, there is a prudent estimate for money market funds and new deposits of at least 3.5% and 4.0% respectively.

8.4 Two further base rate rises are expected in the first half of 2023, peaking at 4.5%. The Bank's success at tackling CPI inflation will depend on the possible need for further rate increases beyond 4.5%, given that there is a time lag between a rate rise and its impact on CPI inflation levels.

Revenues and Benefits

8.5 This service is reporting a variance to budget of £0.400m due to staff resource pressures and increased postage costs from the need to increase capacity for paying grants and reliefs for government support schemes.

Digital and Innovation

8.6 This service is reporting £0.412m under recovery which relates to a £1.500m income budget associated to Small Cell contract renegotiation, this was provided for as a risk in Q2 and is now realised. The amount is being reprofiled over the contract life so will still be recovered.

Finance

8.7 This service is reporting £0.245m overspend, related to forecast bank charges budget pressure (£0.071m) for which a savings target of £0.100m was applied in 2022/23, and some agency costs while vacant posts are advertised permanently.

Corporate Property

8.8 This service is reporting an overall favourable variance of £2.7m, partly a realisation of opportunities reported at Q2. Additional investment income of £1.2m is forecast, driven primarily by property acquisitions. There is also a £1.2m underspend (partially one-off) arising from the conclusion of ongoing negotiations on the FM contract. Negotiations to reduce the backdated rent payable review increase for City Hall have also created a one-off saving of £0.7m.
These underspends have however been partially offset by a £0.4m overspend on rent as the saving from moving Adults Services staff from NHS properties will not be achievable this financial year.

9. Environment and City Management — Overspend £0.215m

9.1 ECM reports an overspend at Q3 of £0.215m against the budget of (£3.827m), comprising offsetting variances within individual services as below.

Parking

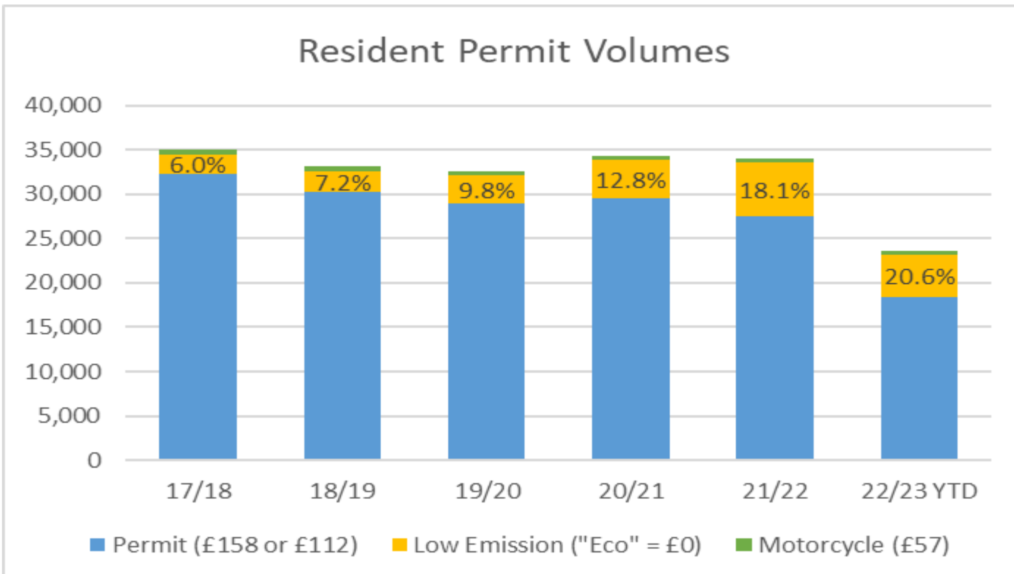
9.2 At the end of Q3 parking is forecasting an adverse variance of £1.653m, an improved position from Q2 of £0.282m.

9.3 Parking's primary income streams are forecast to have a shortfall of £0.825m at Q3, albeit a favourable movement of £0.5m from Q2. PCN income is forecast to increase by £1.0m following the continuation of the additional targeted on-street enforcement.

9.4 Offsetting this, Paid-for-Parking shows a net adverse movement of £0.250m from Q2. Year to date income is 7.2% behind budget compared to 6.6% at Q2, however this will be in part offset by the increase to fees & charges scheduled for February and March which it is estimated will generate £0.250m this financial year.

9.5 Other adverse movements are a newly emerging shortfall of £0.150m in Suspensions which also shows a year-to-date deficit; £0.025m reduction in Paid for Parking Motorcycle income, and a further adverse movement of £0.075m to the Resident Permit income forecast, to £0.525m overall, reflecting the continued increase in the ratio of “Eco” permits which are issued for free.

Table 9 - Residents Permit Volumes



Highways Infrastructure & Public Realm

9.6 Activity in Roads Management continues to exceed budget and previous years, at 8.1% higher than 2021/22 and 22.9% higher than pre-pandemic levels. Activity in Q3 itself however has levelled out, so the forecast remains unchanged from Q2 and an opportunity of £0.06m is maintained.

9.7 The approved increases to fees & charges for Roads Management have been implemented in January, and the forecast shows a favourable movement of £0.08m in respect of the additional income this financial year.

Public Protection and Licensing (PP&L)

9.8 As at Q3, there has been no movement in terms of forecast outturn from Q2, reporting a £1.751m overspend due to delayed delivery of service redesign savings. The proposed budget for next year is recommending removal of the large majority of these savings proposals.

Waste and Cleansing

9.9 Overall, Waste and Cleansing is forecasting to underspend by £2.58m underspend, which is £0.05m favourable movement from Q2.

9.10 Commercial waste income is forecast receive an additional £3.0m more than budgeted, a favourable movement of £0.5m from Q2. Year to date income is £2.4m (24%) over budget, and 36% higher than 2021/22. This increase is due to higher footfall into Westminster since covid restrictions were lifted in addition to growth with both new and existing customers. Bag sales are nearing 2019/20 volumes and containers income also on an upward trend.

9.11 Waste collection and street cleansing is forecasting an overspend of £0.83m, this is an increase of £0.45m from Q2 and is offset against the additional commercial waste income. The change in forecast results from a decision to lease rather than buy two electric street cleansing vehicles; a delay to the strategic review of street cleansing provision; and indirect costs associated with the Queen's funeral.

9.12 Unchanged from Q2 reporting are a forecast underspend of £0.5m in waste disposal due to high levels of recyclables rebate, and smaller offsetting variances of £0.04m in respect of public conveniences and £0.05m employee cost to resource ongoing projects.

10. Children's Services Overspend £1.959m

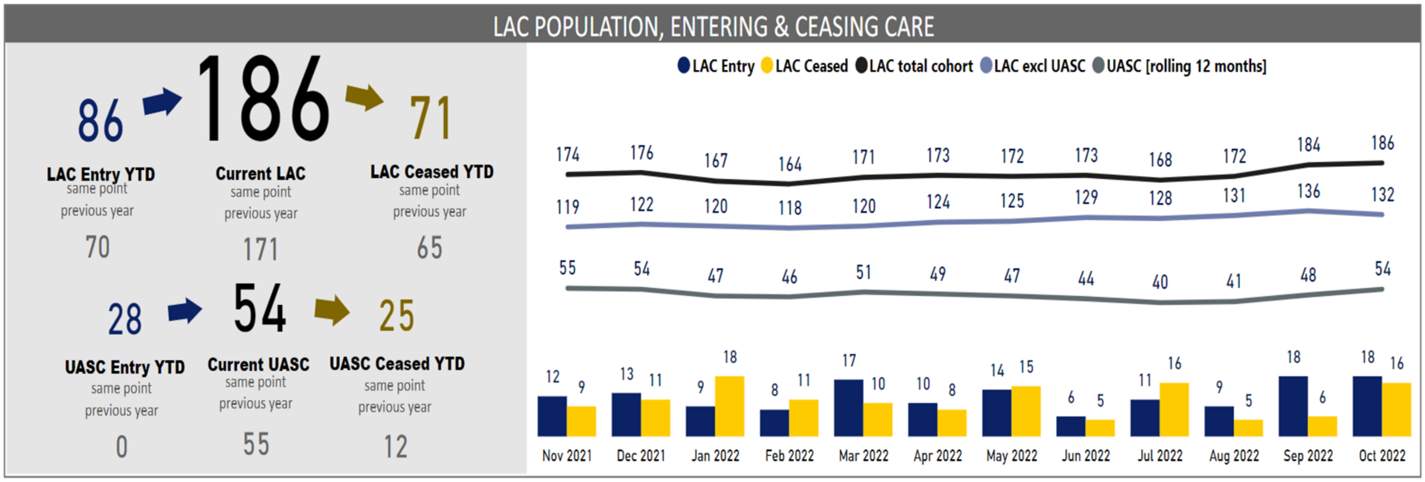
10.1 Children's Services is reporting a forecast overspend of £1.959m at Q3. This represents an adverse movement of £0.150m when compared to Q2, due mainly to changes in Family Services as set out below.

Family Services

10.2 Family Services is forecast to overspend by £0.249m at Q3. The position has deteriorated from Q2 by £0.163m as the increasing cost of supporting families with no recourse to public funds continues to cause pressures.

Numbers of Looked After Children (non-UASC) increased by 15, to 186 in December 2022, when compared to the same period last year. This presents the risk of further pressures on placement budgets.

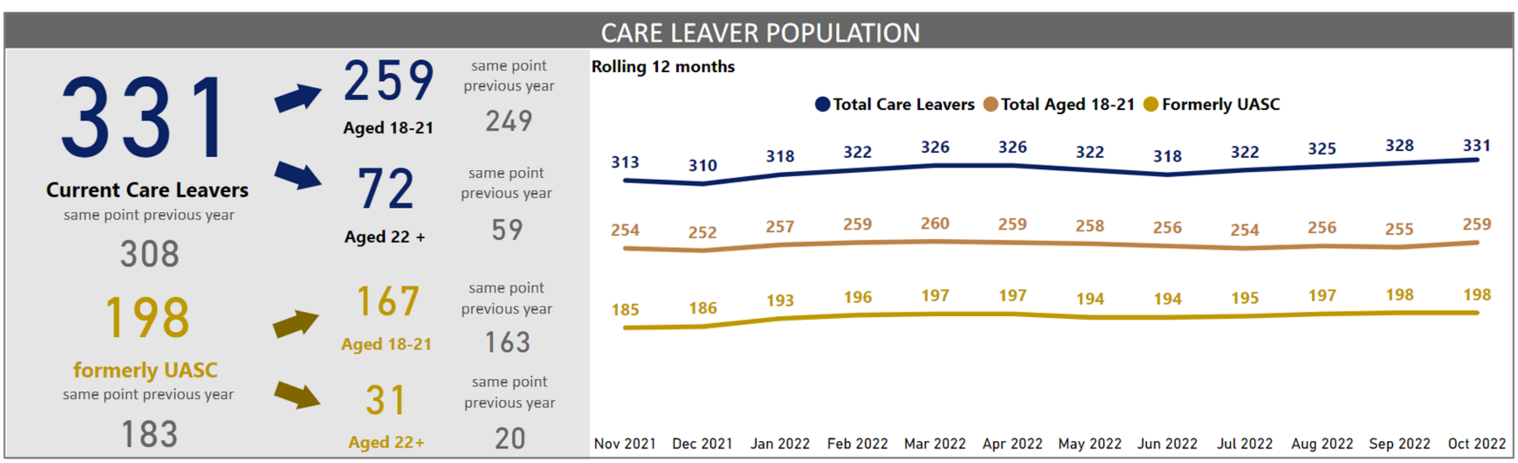
Table 7 – LAC Numbers



10.3 Pressures are further exacerbated by the rate at which UASC are ageing into the Care Leaver population – with Former UASC numbers increasing by 15 over the last 12 months to 198 in December 2022, when compared to the same period last financial year.

10.4 Funding from the Home Office for former UASC care leavers is insufficient to cover their costs, with the average weekly cost being £644 and the funding rate at £270. The Council's General Fund budgets cover the majority of the difference with a forecast variance of £0.057m, but a growth in the numbers represents a financial risk.

Table 8 – Care Leavers Movement



Education

10.5 Education is forecast to overspend by £1.458m at Q3. The change since Q2 is an improvement of £0.013m, with the pressures on Short Breaks and SEN Transport continuing.

11. Innovation and Change — Underspend £0.274m

11.1 Innovation and Change is reporting a favourable variance of £0.274m against a budget of £17.355m. This is the result of the following:

- £0.076m underspend in Executive Director and Business Support due to part year vacancies being held;
- £0.165m underspend in Corporate PMO due to part year vacancies being held; £0.118m underspend in Governance and Councillor Liaison on allowances and part year vacancies and secondments not being backfilled;
- £0.150m overspend relating to leisure contracts offset by increased income in cemeteries; and
- £0.065m underspend in Communications due to part year vacancies being held.

Sports, Leisure and Active Communities

11.2 A net overspend of £0.260m is now forecast in respect of the Leisure Contract current Deed of Variation, resulting from increased energy and other cost pressures faced by the provider.

11.3 Cemeteries income forecasts to over-recover by £0.2m, primarily due to higher activity levels.

12. Other Corporate Directorates — Underspend £0.04m

12.1 Other Corporate Services are reporting a favourable variance to budget of £0.04m within People Services linked to an underspend on part year vacancies and secondments.

13. Housing Revenue Account — £nil variance forecast

13.1 The Housing Revenue Account (HRA) is projecting a balanced outturn at Q3. This is despite some significant challenges in relation to the cost of Repairs and Maintenance (£4.46m) that have been mitigated with favourable variances elsewhere in the HRA.

13.2 The key elements of the Q3 forecast position are summarised below:

Repairs costs (Repairs & Planned Maintenance) **Overspend £4.46m**

13.3 The major adverse variance in the HRA at Q3 is on the cost of repairs. Job volumes continue to remain at a similar level to the numbers completed in 2021/22, but the average job cost is reflecting a sharp increase. About a quarter of this relates to known contract inflation of 5.4% (which is covered by the HRA inflation contingency). However, jobs that are necessarily quoted outside of the agreed schedules of rates are experiencing much higher inflation (due to the cost of labour and materials).

Communal utilities (Repairs & Planned Maintenance) **Overspend £1.51m**

13.4 Inflation on the cost of electricity has been much higher than anticipated in the HRA business plan. The cost of communal electricity is now double the budget that was allocated at the beginning of the year. This reflects the risk flagged at Q2 that is now included in the outturn projection.

Regeneration voids (Regeneration) **Overspend £0.220m**

13.5 Properties that are held empty across the HRA to enable regeneration activity incur costs for the duration of the void period. The biggest cost is council tax. The volume of voids forecast for 2022/23 is currently running higher than the budgeted allowance, although many of these units are shortly due for demolition which should make this a one-off cost pressure.

HRA staff spend (all service areas) **Underspend £1.575m**

13.6 For much of the first half of 2022/23, recruitment was underway to staff the new housing structure that was finalised towards the end of 2021/22. Over this 6-month period, vacancies contributed to a 12% underspend. A much lower variance has occurred over the second half of the year, and further recruitment activity over the final quarter is anticipated to bring the number of vacancies down to standard operating levels for a service of this size. The level of agency cover has also significantly reduced with interim staff accounting for less than 2% of the 451 strong establishment.

Service charge income (Neighbourhoods) **Underspend £1.402m**

13.7 Service charges are billed on an estimated basis at the beginning of the financial year. An adjustment is then made mid-way through the year to reflect actual costs within the calculations. The mid-year adjustments are expected to result in more service charge income than the previous estimates. Given that service charges are managed on a cost-recovery basis, this reflects the general upwards trend on costs across all services being delivered within the HRA (particularly items such as communal electricity).

Corporate items (Corporate Items) **Underspend £4.378m**

13.8 The HRA inflation contingency is held under Corporate Items. An allowance of £1.265m was set aside to cover 2022/23 repairs inflation (with the remainder of the contingency covering the 2022/23 pay award). A £2m adjustment to the depreciation estimate for 2022/23 has also been reflected here (to reflect the calculations completed at the 2021/22 year-end). This has also been included as an on-going MTFP saving for the HRA and will help to offset the growth in repairs costs on a more permanent basis. Finally, the HRA now has a £nil borrowing requirement on its capital programme for 2022/23 (due to the expectation of additional grant to support capital expenditure). This has generated a saving on interest costs of £1.607m.

14. Council Tax and Business Rates collection

14.1 At the end of Q3 the Council Tax collection rate is 79.6% which is 0.89% high than the same month last year, this is an improvement on the Q2 deficit of 0.5% as shown in the table below.

14.2 The Business Rate collection rate continues to improve post-Covid, for December 2022 it was 80.3% which is 6% higher than the same month last year.

15. Capital Budget 2022/23

15.1 The table below summarises the Council's budget and forecast position on the 2022/23 capital programme, which reflects a projected £35.591m gross expenditure variance and £18.281m net variance. It should be noted that budgets were reprofiled at Q2 and have been approved by Cabinet.

Table 12 – Capital budget and forecast position 2022/23

ELT Directorate	2022/23 Expenditure Budget £m	2022/23 Income Budget £m	2022/23 Net Budget £m	2022/23 Expenditure Forecast £m	2022/23 Income Forecast £m	2022/23 Net Forecast £m	2022/23 Expenditure Variance £m	2022/23 Income Variance £m	2022/23 Net Variance £m
Adults Services	5.460	(0.860)	4.600	4.430	(0.030)	4.400	(1.030)	0.830	(0.200)
Children's Services	10.333	(10.281)	0.052	8.194	7.278	15.472	(2.139)	17.559	15.420
Growth, Planning and Housing	100.087	(26.885)	73.202	96.256	(32.215)	64.041	(3.831)	(5.330)	(9.161)
Environment and City Management	79.116	(18.950)	60.166	55.431	(15.677)	39.754	(23.685)	3.273	(20.412)
Finance and Resources	55.737	(5.127)	50.610	46.637	(4.169)	42.468	(9.100)	0.958	(8.142)
Westminster Builds	14.700	0.000	14.700	19.613	0.000	19.613	4.913	0.000	4.913
Innovation and Change	1.570	(0.020)	1.550	0.851	0.000	0.851	(0.791)	0.020	(0.699)
Net Controllable Budget	**267.003**	**(62.123)**	**204.880**	**231.412**	**(44.813)**	**186.599**	**(35.591)**	**17.310**	**(18.281)**

15.2 The table below shows that 16 projects contribute to most of the expenditure variance. By way of comparison there are over 250 projects in the 2022/23 capital programme, with just 7% of the projects causing 70% of the expenditure variance.

Table 13 – Key Capital Schemes 2022/23

Project	2022/23 Forecast Variance to Budget £m	Comments
Waste Fleet	(17.063)	There have been delays with securing a lease agreement- this has resulted in a delay on site infrastructure works. Therefore, the supplier will now retain the vehicles until next financial year when the site is able to hold and charge the vehicles.
Carbon Management Programme	(3.174)	Preparation for 2023/24 grant bids has been the predominant focus in this area, resulting in delayed work (reprofiled to 2023/24) on Council funded programmes.
Improvements Investment Properties	(1.730)	Two main projects have impacted this variance; Huguenot House refurbishment, and Orange Street, as the scope of works has caused delays, as more work needs to be done than first anticipated.
Placeshaping Schemes	(1.268)	The majority of this relates to the Harrow Road Placeshaping scheme (£0.975m) due to the delay of canal repair works and a revision of salary costs. There are also smaller underspends on Soho Public Realm Improvements (£0.165m), Paddington North Bank (£0.085m) and Victoria Place Plan (£0.060m) due to scheme delays or pauses as future delivery plans continue to be worked through.
Lisson Grove Programme - Acquisitions	(1.200)	The updated forecast is based on the revised number of units expected to complete by 31st March. The original forecast assumed the completion of three acquisitions in Gayhurst House, two of which are now expected to happen in 2023/24.
Public Realm Improvement Services	(1.097)	The variance to budget is made up of several smaller schemes such as Abel & Cleland and Wellington hotel. These schemes will be starting in early 2023/24 rather than originally intended - this is due to the project funders request. Therefore, some schemes within this category will be slipped into 2023/24.

Project	2022/23 Forecast Variance to Budget £m	Comments
Planned Preventative Maintenance- Lighting	(1.072)	Delays on the structural critical columns work resulting from long delays with getting materials due to overseas supply issues. Also, several street-works notices have been declined due to other utilities working in the road along with some issues found on site as existing columns are on bespoke foundations delaying activity on some roads.
Hanover Square	(1.000)	The scheme is now at almost at completion stage and as a result unused risk and contingency budget can be declared as an underspend.
Royal Albert Hall HVM	(0.966)	The scheme is now at almost at completion stage and as a result unused risk and contingency budget can be declared as an underspend.
Queensway Streetscape	(0.950)	The scheme is now at almost at completion stage and as a result unused risk and contingency budget can be declared as an underspend.
Waterloo and Golden Jubilee Bridge	(0.800)	Delays on ability to starts work on Waterloo Bridge Streetscape as TfL negotiations continue. Work is now expected to fully commence from March onwards. As a result, only a small amount expenditure will be incurred during 2022/23, instead the majority will fall in FY 2023/24 onwards.
St Marylebone Bridge Special School	(0.749)	£27.094m is being reprofiled into 2022/23 from 2024/25. Purchases of properties in Vauxhall Bridge Road and the head lease in Berwick Street were completed in Q1 which requires the acquisitions budget to be brought forward.
School Development Capital Projects	(0.600)	Some projects have been delayed due to a combination of delays in the tender process. It is anticipated that works will now begin in early April 2023.
Project	**2022/23 Forecast Variance to Budget £m**	**Comments**

Strand Aldwych	0.635	Contractor costs to complete benches in the meanwhile space has been accelerated from 23/24. £0.104m of the total forecasted spend relates to Strand Curation and will be funded from S106.
Parking Projects	1.316	Parking contracts have been successfully awarded and a timescale for implementation is now clearer. There is opportunity to begin implementation earlier than had been anticipated, leading to reprofiling of expenditure into 2022/23 from 2023/24.
Westminster Builds (WB)	4.913	The following financing requirements were not included in the Q2 forecast leading to a higher investment requirement from the company: - A deferred land payment to the Limited Liability partnership for £2.026m - Capitalised interest on the Luton Street Loan of £0.893m - A loan to WB for the acquisition of homes at West End Gate for £2.130m which has been brought forward from 2023/24. -Offset by a small underspend of £0.068m on the Parsons North acquisition loan
Total	**(24.805)**	

16. Housing Revenue Account

16.1 The HRA capital budget and forecast position is summarised in the table below:

Table 14 – HRA Capital Budget and Forecast

HRA Capital Programme	2022/23 Budget (£m)	2022/23 Forecast (£m)	2022/23 Variance (£m)
Planned Maintenance	49.985	48.508	(1.477)
Regeneration and Development	126.689	105.8753	(20.814)
Other Projects	17.103	14.103	(3.000)
Total	**193.777**	**168.486**	**(25.291)**

16.2 The HRA is forecasting an outturn capital position for the year that is below the in-year budget (resulting in an expenditure variance of £25.291m overall). The 2022/23 budget is the Q2 revised budget.

16.3 In addition, the HRA is now projecting a £nil borrowing requirement for 2022/23 versus the £50.261m expectation that was built into the previous version of the HRA Business Plan.

16.4 The HRA is forecasting an in-year underspend on its capital expenditure of £25.291m. This is due to elements of the programme being reprofiled into future years due to match contractors' work schedules and resource plans (which reflect delays to project completion dates for some schemes). The Planned Maintenance element of the programme is projecting an outturn that is c.20% higher than 2021/22 (which reflects a continuing increase in delivery capacity post-pandemic). Some of the key variances on individual projects are set out in the tables below.

Table 15 – Key variances within HRA Planned Maintenance:

Project	2022/23 Variance to Budget (£m)	Comments
Fire Precaution Works	(1.279)	This variance reflects delays to the programme that have been driven by a need for further resident consultation on several key schemes (namely Torridon and the front door replacement programme).
Major Works	(0.505)	The forecast reflects revised delivery projections from service providers that have experienced minor delays across the £18m programme over the winter period.
Voids	(0.434)	There is an increase in the number of voids in 2022/23 (357 vs 297 in 2021/22), which includes 28 voids previously earmarked for disposal that are now being brought back into operation. These voids are generally in worse condition and only 60% are now projected to be completed before the end of 2022/23 due to the extent of the works required (hence a slight reduction in the forecast since Q2). They are also more expensive (some costing up to £39k) which has increased the average cost per void by 8% versus 2021/22.
Minor Works	0.892	This reflects an improved profile in terms of the rate of kitchen and bathroom replacements in-year.
Other Minor Variances	(0.151)	Some schemes are progressing faster than projected (including Climate Works) but minor slippage has been identified on other programmes (including Lifts).
Total	**(1.477)**	

Table 16 – Key variances within HRA regeneration and development:

Project	2022/23 Variance to Budget (£m)	Comments
Ebury Acquisitions	1.011	Acquisition volumes are driven by resident interaction. Additional acquisitions are expected in 2022/23.
Ebury	(20.239)	Delay to the main works contractor procuring key packages including pre-cast façade, metalwork, building maintenance units, mechanical, electrical, plumbing and lifts.
Ashbridge	1.049	Additional claims due to issues encountered during construction programme has led to increased costs in-year
Lisson Arches	(2.977)	Dispute with the main contractor has led to a delay of works in the current financial year.
Infills	(1.240)	Some of the infills schemes are now on hold and programme has been re-focused to prioritise schemes in construction or ready to start on site with all approvals in place.
Other Minor Variances	1.582	
Total	**(20.814)**	

17. Subsidiaries Overview

17.1 This report provides a financial overview of the wholly owned Westminster Builds, Westminster Community Homes (WCH) and Westminster Communications (WestCo) up to November 2022/23**.**

Westminster Builds

Table 17 – Westminster Builds P&L Summary 2022/23

P&L Summary £000's	Actual YTD £'m	Budget YTD £'m	Variance YTD £'m	Year End Forecast £'m	Full Year Budget £'m
Total Income	0.314	0.352	(0.038)	0.684	0.715
Total Expenditure	(0.262)	(0.202)	(0.060)	(0.404)	(0.344)
Operating Surplus/(Deficit)	**0.052**	**0.150**	**(0.098)**	**0.280**	**0.371**
Net Interest	(0.313)	(0.313)	-	(0.793)	(0.689)
Profit/(Loss) Before Tax	**(0.261)**	**(0.163)**	**(0.098)**	**(0.515)**	**(0.318)**

17.2 The variance in the operating deficit of £0.098k is due to:

- £38k lower than forecasted income due to delays in attaining full occupancy of units at Jubilee, Parsons North and West End Gate.
- £60k higher than forecasted expenditure due to higher legal costs and unbudgeted business plan model costs (£86k). This is offset by lower housing related expenditure due to full occupancy delays (£26k).

Westminster Community Homes

17.3 The net operating favourable variance of £0.138m is mainly due to:

- £0.134m lower than budgeted expenditure is primarily due to the favourable variance of £0.181m for refurbishment expenditure and £0.038 adverse variance for the tenants in arrears.

Table 18 – Westminster Community Homes P&L Summary 2022/23

P&L Summary £000's	Actual YTD £'m	Budget YTD £'m	Variance YTD £'m	Year End Forecast £'m	Full Year Budget £'m
Total Income	2.926	2922	0.004	4.301	4.301
Total Expenditure	(1.739)	(1.873)	0.134	(2.793)	(2.793)
Operating Surplus/(Deficit)	**1.187**	**1.049**	**0.138**	**1.508**	**1.508**
Net Interest	(0.240)	(0.257)	0.017	(0.360)	(0.385)
Gain on Sale of Assets	0.333	-	0.333	0.045	(0.273)
Amortisation & Depreciation	(0.843)	(0.949)	0.106	(1.300)	(1.424)
Profit/(Loss) Before Tax	**0.437**	**(0.157)**	**594**	**(0.107)**	**(0.574)**

Westco

17.4 The operating deficit of £0.169m is mainly due to a slowing down of active projects, where the type of work required from clients has changed post-pandemic. Westco have now actioned a restructure and series of redundancies to change the scope of their business in response to changes in their business environment. These changes should see Westco return to a profitable position in 2023/24.

Table 19 – Westco P&L Summary 2022/23

P&L Summary £000's	Actual YTD	Budget YTD	Variance YTD	Year End Forecast	Full Year Budget
Total Income	2.040	2.533	(0.493)	3.061	3.800
Total Expenditure	(2.209)	(2.338)	0.129	(3.292)	(3.580)
Operating Surplus/(Deficit)	(0.169)	0.195	(0.364)	(0.112)	0.292
Net Interest	-	-	-	-	-
Profit/(Loss) Before Tax	**(0.169)**	**0.195**	**(0.364)**	**(0.231)**	**0.292**

18. Financial Implications

18.1 The financial implications are set out the main body of the report.

19. Legal Implications

19.1 There are no legal implications arising from this report.

20. Carbon Implications

20.1 There are no carbon implications arising from this report.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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Appendix 1 – Schools Forecast

1.1 The Bi-Borough Schools' Finance team provides support to 39 maintained schools and nurseries (excluding Westminster Cathedral) in the borough of Westminster.

1.2 Schools in Westminster face a number of challenges, particularly, primary schools with falling rolls. The 2022/23 headcount for schools in the borough reduced by 241 pupils; primary school numbers fell by 212 (to 8,828) and secondary schools numbers fell by 30 (to 9,050). This is expected to fall further by over 400 pupils by 2023/24.

Dedicated Schools Grant

1.3 Westminster City Council receives an allocation of Dedicated Schools Grant (DSG) from the Education and Skills Funding Agency (ESFA) to fund maintained schools and academies and items of central expenditure. The DSG finances schools, central services, early years and high needs expenditure.

1.4 Westminster's Schools funding has increased by 5.7% per pupil for 2022/23, including the schools supplementary grant funding.

1.5 The DSG reserve deficit is £1.167m as at 31 March 2022. This is a decrease in reserve of £3.554m from the £2.387m surplus as at 31st March 2021, due to a net in year overspend mainly attributable to the significant and increased spend pressures in the High Needs Block (which relates to children with Special Educational Needs and Disabilities), as well as school restructures.

1.6 Contrastingly, the forecast for 2022/23 is a £2.212m underspend. This will eliminate the DSG cumulative deficit of £1.167m at the end of 2021/22 and result in a surplus balance of £1.045m by the end of 2022/23.

Schools with Deficit Balances

1.7 There were eleven schools (including one maintained nursery) that ended 2021/22 in deficit. This compares with thirteen schools at the end of 2020/21.

1.8 Currently, there are ten schools forecasting deficits in table 20. These schools are all RAG rated as red to highlight the urgent need for a sustainable position to be maintained in order to return to a balanced budget position. Collectively, these schools had an aggregate deficit of £1.541m at 31 March 2022.

1.9 St Vincent de Paul had a deficit at the end of 2021/22 however is now forecasting to fully recover their deficit this financial year.

Table 20 – Schools requiring licensed deficit recovery plans

School Name	Licensed Recovery Plan
Portman	Yes
All Souls' CE Primary School	Yes
Burdett Coutts CE Primary School	Yes
Soho Parish CE Primary School	Yes
St George's Hanover Square	Yes
St Luke's CE Primary School	Yes
St Mary Of The Angels Catholic School	Yes
St Saviour's CE Primary School	Yes
St Stephen's CE Primary School	No
St Vincent De Paul Catholic School	Yes
Westminster Cathedral Catholic School	N/A (amalgamation)

1.10 Of the eleven schools, nine have licensed deficit recovery plans in place and one is being pursued. The remaining school, Westminster Cathedral, has amalgamated with St Vincent de Paul from September 2022 and their deficit will not be recovered. As this deficit is chargeable to the Council and not the DSG, a provision of £270k was made in the 2021/22 accounts for this liability; the latest forecast is predicting a deficit of £278k and should be finalised soon.

Schools at Risks – risk rating and reserves balances

1.11 Schools RAG rated red have no reserves or a deficit balance and require a deficit recovery plan. Schools with amber RAG ratings are at risk of future financial difficulty due to their reserves having reduced by prior or in year deficits to the extent that a further reduction of similar magnitude would result in a deficit balance within 2 years and so need to take action to reverse the trend.

1.12 These schools have also been offered support with financial management, ranging from cross-departmental training delivered to staff and governors (involving School Standards and Finance colleagues) to assistance with producing recovery plans and budget monitoring and requests received vary according to the school's needs.

1.13 Green RAG rated schools have enough reserves to cover a future in year deficit equal in value to a current year deficit, should this occur.

1.14 Table 21 shows a summary of the RAG rating and school balances for both 2021/22 outturn and 2022/23 forecast

Table 21 – RAG Ratings and Balances Summary

RAG Rating	2021/22 Outturn	2021/22 Balance (surplus) / deficit	2022/23 Forecast	2022/23 Forecast Balance (surplus) / deficit
Red	11	1,697	10	1,911
Amber	6	(605)	11	(213)
Green	23	(5,177)	19	(4,691)
Total	**40**	**(4,085)**	**40**	**(2,993)**